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Public Policy Determinants of Import Substitution Industrialization. A Case Study of Pakistan: Analyzing the Impact of GDP, Total Reserves, Industry and Exchange Rates

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Abstract

This study explores the determinants of import substitution industrialization of Pakistan. We use dependent variable is Import substitution and Independent variable are GDP, Total Reserve, Industry, Exchange rate. We use Time series Data from (1982- 2021). To get the empirical results we use the ADF and ARDL approach. We get all the dependent and independent variable from the website of world development indicator (WDI). The result reveal that the import substitution has a positive effect on imports, GDP, Total reserve, exchange rate and industry. On the basis of our findings, we suggest the policy for the determinants of import substitution industrialization are Dependency Theory and Infant Industry argument.

Keywords: Industrialization, Exchange rate, ARDL, Substitution

1. Introduction

Imports play a major role in international trade, and the import of capital goods in particular is crucial for economic growth. The economy is directly impacted by imported capital goods through investment (Egwaikhide, 1999). Pakistan's import-substitution industrialization policies, which have increased the industrial sector's GDP share since independence, are mostly to blame for these industrial activities. Unfortunately, excessive industrial capacity and inefficient resource use resulted from these import substitution-based modernization programs. David and Faruq (2010).

Over the time, possibly inelastic demand for imported products and raw resources developed. The country's dependence on imports for both production and consumption increased as imports increased (Ezeji & okonkwo, 2014). Import substitution industrialization has long been regarded as a viable policy prescription for developing countries seeking to catch up with advanced industrialized countries (Nyong & Ekpenyong, 2007).

Import Substitution Industrialization is a massive tent, both conceptually and practically. Since so many different experiences can be included, generalizations either lose all analytical precision or wash out major variations and their causes. (John, 1999). The increase of import-substitute output on the demand side is influenced by both pure

import replacement and growing total demand. Import substitution is caused by the protection regime, which affects relative pricing in favor of indigenous producers. (Humphrey, 1970).

Import Substitution Industrialization is a plan of development that aims to boost domestic production of labor-intensive manufactured goods that were previously imported, mainly consumer goods. Imported goods include raw materials, capital goods, machinery, and productive equipment (Sylvia & Nolt, 1990). Several economists have examined the import-substitution development approach in great detail in the last few years. The majority of these studies have concentrated on one or more facets of this intricate strategy for development policy. (Bruton, 1970).

An insufficient supply of foreign currency for imports may limit the potential for growth in underdeveloped countries that are trying to promote economic development (Leff et al., 1966). Economic development refers to all activities and policies undertaken by the government with the aim of enhancing a state's economic well-being through increases in trade, investment, and employment (Aregbeshola, 2017).

The neo-classical view of efficiency through free trade was bound to clash with import substitution policies for deliberate and accelerated industrialization in less developed countries (Jaleel, 1978). Many recent studies have calculated the impact of import substitution on industrial growth. There isn't a consensus on the best way to measure import substitution, and all the methods that are currently in use can produce glaring inconsistencies when used in scenarios involving aggregation over time or across industries (George, 1973).

All that import substitution industrialization is an economic growth strategy that prioritizes protecting new and developing local industries through import quotas, protective tariffs, exchange rate controls, special preferential licensing for capital goods imports, and loans that are subsidized to these industries. (Kanayo et al., 2011). In general, monetary policy refers to the purposeful efforts made by the government to manipulate the money supply, credit cost, credit size, and credit direction in order to affect the degree of economic activity and achieve the intended macroeconomic stability in an economy. (Eziji & Okonkwo, 2014).

For less developed countries, finding work and a shortage of labor absorption have become serious problems in recent years. It has not been proven that import-substituting industrialization (ISI) may result in appreciable gains in manufacturing employment (Tyler, 1974).

Import Replacement A technologically impoverished country uses industrialization as a development strategy to try and accelerate industrial investment, mostly for the home market. It mainly depends on government control over market prices, entry obstacles, and funding and import availability. (Felix, 1989).

A closed economy (high tariff barriers, quotas, and exchange controls) and a substantial state role (government spending as a significant portion of total expenditure GDP, numerous regulations, and an increase in the number of state-owned enterprises) were supported as two of the ISI model's core principles. (Sapelli, 2003).

1.1 Problem statement

The Pakistan economy did not experience massive growth or long-term development as a result of import substitution. The efficiency and production capacity of both public and private companies were negatively impacted by the absence of competition in the home market. If imports increase the dependency of Nation to the other is also increases and when imports are stop there is difficult to fulfil the demand of country.

1.2 Objectives

The study aims to:

- replace imports with domestic production; and
- empirically quantify the factors influencing import substitution industrialization.

1.3 Organization of study

First, we will discuss Determinants of Import Substitution Industrialization introduced in Pakistan. Next, we will discuss about the literature review of Determinants of Import substitution industrialization. Then we develop a model specification of our research which will talk about how independent Variables affect the dependent variable of our research. Then we do some analysis between dependent and independent variables and then we conclude results of our analysis.

2. Literature Review

Adewale (2012) In the developing world, more economies have emerged as a result of indigenous import substitution industrialization (ISI) policies. Using statistics from the World Development Indicators (WDI), a

World Bank initiative, this article makes the case that the macroeconomic policy of import substitution industrialization led to the present economic developments in Brazil and South Africa. According to the essay, an industrialization strategy centred on import substitution not only works well for pushing industrialization in less developed nations but also promotes sustained economic expansion.

Adewale (2017) The effect of industrialization on import substitution on the nation's economic performance is examined in this article. This essay uses World Bank Development Indicators data from 1960 to 2016 to argue that ISI policy ignited the country's industrialization development. Therefore, it is advised that less developed nations pursue this kind of economic integration and domestic ISI strategy in the medium term to replace imports, and then embrace liberalization once higher levels of industrialization are attained in the long term.

Afzal (2006) His article develops a dynamic model to explain Pakistan's import factors. The time dimension is added to the static model in the article to further clarify the import function. The price coefficient for aggregate imports is negative and not significant in both static and dynamic models, suggesting that import prices have no effect on the demand for aggregate imports and underscoring the massive import requirement of Pakistan's manufacturing sector. The price coefficient for imports of consumer goods is significant and exceeds unity in the model, indicating elastic demand.

Baer (1972) Many Latin American governments heavily relied on Import Substitution Industrialization (ISI) to support economic growth and socio-economic modernization during the majority of the 1950s and 1960s. But by the early 1970s, there was a lot of uncertainty about ISI's ability to deal with regional development issues. While income distribution has either stayed the same or become more concentrated than it was in the early post-World War II years, industrial growth has stalled in many countries. Furthermore, the high cost of most industrial goods produced in the region significantly restricts export alternatives.

Chani and associates (2011) This import demand function for Pakistan is evaluated empirically using co-integration and an error correction method. The empirical findings demonstrate that there are differences in the elasticity of import demand with respect to various macro components of final spending. Pakistan's import demand is positively and significantly impacted by every component of expenditure. Pakistan's import demand and the relative pricing have an unfavourable but insignificant link. In order to solve the problem of the country's persistent trade deficit, the model created in this study provides thorough instructions for macroeconomic policy decisions.

Cheelo (2004) This study uses an error correction model to look at how aggregate imports and their components were determined in Zambia between 1965 and 1997. The estimation results show that in the short run, aggregate import behavior over the reference period was significantly influenced by (lagged) foreign exchange receipts, international reserves, real income, and prior imports. The lack of significance of the relative price elasticity suggests that overly focused trade policies, such as tariff and non-tariff restrictions or devaluations, did not successfully support efforts to reform trade policy during the study period. So, through the latter policies, policymakers seeking to significantly affect import demand would be better able to do so.

Chudnovsky et al. (2007) Argentina's economy experienced 11 years of consecutively positive GDP growth between 1964 and 1974, despite the fact that its ISI growth performance was relatively subpar by international standards. However, there were still ongoing institutional and balance of payments crises, along with rising social unrest, during those years.

Egwaikhide (1999) The Pakistani government has pushed industrialization through import substitution as part of its initiatives to encourage economic development. A review of the literature revealed that this development strategy's import dependence made the foreign exchange issue worse. Industries that replaced imports with domestic manufacturing employed a labor-intensive, capital-intensive method of production. Export-led industrialization is the focus right now, and the right policies need to be implemented to make it a reality.

Ezeji & Okonkwo (2014) The impact of variables related to import substitution on Pakistani industrialization from 1981 to 2012 is examined in this study. Deregulating Pakistan's foreign exchange market was intended to promote industry and export by replacing imports. It For this investigation, we selected four explanatory factors based on theoretical foundations. Our intention was to make a link between industrial production and the explanatory variables. The estimated error correction mechanism (ECM) states that over time, 53% of the industrial-GDP imbalance is corrected.

Fatukasi & Awomuse (2011) Real Gross Domestic Product (RGDP), External Reserves (EXTR), Real Exchange Rate (REXCH), and Index of Openness (OPNS) are used in this study to analyses the determinants of import demand functions in Pakistan. The investigation of Pakistan's aggregate import demand's behavior and its determinant (function), followed by an analysis of the data from 1970 to 2008, is the study's main goal. For

analysis, the error correction model (ECM) method was used. This demonstrates that the volume of import demand and its determinants have a long-term relationship.

Irwin (2002) It is possible that import taxes caused growth because they were positively connected with economic growth in different countries in the late nineteenth century. This study aims to determine whether shifting resources from agriculture to manufacturing due to high tariffs has a growth-stimulating effect. Tariffs in agricultural exporting (importing) nations may have encouraged (hindered) this shift even though two high-tariff, high-growth, export-oriented outliers, Canada and Argentina, did not implement import substitution policies.

Joseph & Ibrahim (2022) This study uses macroeconomic factors like inflation and interest rates to examine how Ghana's import substitution policy affects the country's trade balance and exchange rate. The policy of import substitution, according to the results, improves the trade balance and increases domestic production capacity. This implies that putting the import substitution policy into practice will guarantee the strengthening or stabilization of the value of the home currency without eventually depleting foreign reserves.

Nyong & Ekpenyong (2007) The impact of the industrialization strategy of import substitution on the Nigerian economy from 1970 to 2003 is examined in the paper. It becomes clear that the Nigerian government is pursuing this policy as part of an effort to stop the deterioration in trade, large fiscal deficits, low inflow of foreign capital, economic development, and under-development. The outcome of the Nigerian econometrics model shows no evidence of a conflict between the industrialization strategy of import substitution and growth in total factor productivity.

Nyong & Ekpenyong (2007) To close the gap between domestic production and total demand, imports are crucial. In order to use the estimates for policy analysis, the goal of this article is to estimate a dynamic imports demand model for Tanzania. According to the regression results, the only factors that statistically significantly affect import demand are gross domestic product foreign reserves and foreign exchange earnings. The expected signs are present for all variables. Theoretically, a gain in foreign reserves and the domestic price of imports are inversely correlated with the demand for imports. Exports and foreign exchange market profits are intimately correlated with the demand for imports since they may be readily utilized to fund imports.

Samouel & Aram (2016) Between 1970 and 2012, we examined the relationship between industrialization and important socioeconomic, financial, and institutional traits for 35 African countries using a dynamic panel model. We also perform sub-regional and sub-period analysis to verify the accuracy of the data. The following is a summary of the key findings. The literature frequently discusses the real effective exchange rate, human capital, and labour market circumstances. Policy interdependencies are important and helpful for Africa's industrialization.

Sapelli (2003) This paper examines Chile's economic policy decisions during the import substitution industrialization (ISI) era, which ran from 1950 to 1973. A closed economy and a significant state role were the foundations of the ISI model. This paper contends that although IFIs have a part to play in this process, the credibility of the liberalization process ultimately depends on the size of the loan and the degree of conditionality. GDP, Fiscal Policy, Liberalization, and International Reserves are the variables in this model.

Sarmad (1989) In his study he investigates the variables affecting Pakistani import demand from 1959–1960 to 1985–1986. The log linear form is chosen after applying a general method to empirically determine the best formulation of the import demand functions. Comparing the estimated price and income elasticities to those of developed and middle-income countries reveals a clear difference.

Sinha (1997) The function of Thailand's overall import demand is estimated in this study. Prior to estimation, the stationarity of the time series was not taken into consideration in previous studies on import demand based on time series data. We discover that, in the near run, Thailand's overall import demand is inelastic in terms of income, cross-price (in relation to domestic pricing), and price. The entire demand for imports is cross-price inelastic and price inelastic over the long run. However, over time, overall import demand is comparatively income elastic.

Tirmazee & Nveed (2014) This study uses time-series data from the World Development Indicators for the years 1970 to 2010 to examine Pakistan's typical import-demand function. utilizing impulse response functions and a vector error correcting model. This suggests that we need more decisive factors. The residuals of the traditional import demand function are compared to those of a model that takes into account the terms of trade and the availability of foreign exchange as import demand influencing factors. The subsequent upswing, during which Pakistan began to catch up with other developing nations, might have had a role in the 2008 balance-of-payments crisis.

Vadu & Odhiambo (2020) An overview of the theoretical and empirical studies on the critical factors influencing import demand in both developed and developing countries can be found in this literature. Overall, the research

presented in this paper's conclusions demonstrate that the factors affecting import demand vary among nations and over time, depending on the proxies employed to estimate import demand. The results also showed that the main factors influencing import demand varied according to how the income variable was broken down into its component pieces or handled as a single variable. The precise consequences of these elements are unknown.

3. Model Specification and description of variables

3.1 Model Building

Fatukasi & Awosume (2011) estimate the equation AIM = f (EXTR, RGDP, REXCH, OPNS) from the empirical studies. We change one variable Ratio of Openness (OPNS) to Industrialization (INDUS). The Import Substitution Industrialization Determinants in Pakistan served as the basis for this study. Using the gross domestic product, external reserves, real exchange rate, and industrialization, we calculate Pakistan's total import demand. The choice of variables included in the model is informed by past empirical studies and economic theory. The general econometric equation for Determinants of Import substitution industrialization is:

$$Y = \beta + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

It can also be written in this form

IMP= β + β1(GDP) + β2(TRSRVE) + β3(EXCR)+ β4(INDUS)+∈t **(1)**

Here

IMP = Import of goods and services
LGDP = Log Gross Domestic Product
TRSRVE = Total Reserve
EXCR = Official Exchange Rate
INDUS = Industry

In this equation Import (IMP) is a dependent variable and other Gross Domestic Product (GDP), Total Reserve (TRSRVE), Official Exchange Rate (EXCR) and Industry (INDUS) is used as independent variables.

3.2 Data Source and Variable description

Table 1: Data sources

No.	Variable	Proxy	Description	Source
1	Import	IMP (%GDP)	"Imports of goods and services are a representation of the value of all goods and other market services that come from other nations."	WDI
2	Gross Domestic Product	GDP (Current US $)	"GDP at buyer's prices is calculated as the sum of the gross value added by all resident producers, plus any product taxes that may be relevant, less any subsidies that are not represented in the price of the items."	WDI
3	Total Reserve	TRSRVE (% of total external debt)	Total stock of external debt divided by international reserves.	WDI
4	Exchange Rate	EXCR (LCU per US$, period average)	The exchange rate created in the market for exchange that is legally recognized is referred to as the "official exchange rate" when it is determined by national authorities.	WDI
5	Industry	INDUS (Value added as	"This covers manufacturing (sometimes stated as a separate category), construction, power, water, gas, and manufacturing value added. Value added is a sector's net	WDI

% GDP)	output, which is calculated by adding up all outputs and subtracting any intermediary inputs."

3.3 Relationship between dependent and independent variables

When GDP is expanding, it often indicates the growing economy with the increased consumer and business spending. This higher level of economic activity can lead to greater demand for goods and services, including imported products. As a result, import tend to rise during periods of economic growth, reflecting the increased purchasing power and consumption patterns of growing population. The GDP and import have a positive correlation.

Exchange Rate fluctuation effect both positively or negatively. When the domestic currency strengthens or appreciates against other currencies, imports become cheaper. This can benefit importers as they can purchase foreign goods at a lower cost, potentially leading to an increase in import volumes. When the domestic currency depreciates or becomes weaker compared to other currencies, imports become more expensive. This is because fewer units of the local currency will now be purchased with the same quantity of foreign cash. Therefore, a drop in import volumes could arise from higher import prices.

In some cases, higher total reserves can stimulate domestic production and reduce the dependence on imports. When a country has sufficient reserves, it may invest in domestic industries and infrastructure, encouraging the production of goods that were previously imported. This can lead to a decrease in imports over time.

Industries mostly depend on imports to get necessary raw materials that may not be Obtainable domestically or are more practical to obtain from other countries. For example, Manufacturing industries may import raw materials like minerals, Metals, or chemicals to support their production processes.

3.4 Theories

3.4.1 Dependency Theory

According to dependency theory, ISI was a reaction to the political and economic disparities between developed and developing nations. It contends that by keeping underdeveloped nations reliant on capital and technology from other countries, the global capitalist system perpetuates underdevelopment in these countries. By encouraging domestic industrialization and reducing reliance on imports from abroad, ISI sought to end this dependence this theory is also used by the (Prebisch, 1962).

3.4.2 Infant Industry Argument

According to the infant industry argument, developing nations must shield their nascent industries from foreign competition while they are still in the early stages of development. ISI proponents contend that domestic industries can be protected from the more advanced and effective industries of developed countries by enforcing tariffs, quotas, and other trade barriers. Due to this protection, emerging industries can develop over time and become competitive. This theory is also used by (List,1904).

4. Methodology

4.1 Data Source

This study uses time series data covering the period of 1982 to 2021. All the data for this research were obtained from World Development Indicators (WDI).

4.2 Econometrics Techniques

This Study uses technique to check the stationary of the data set is ADF (Augmented Dicky - Fuller) test.

4.2.1 ADF Test

The ADF test is one of the most often used methods for identifying whether a unit root exists in a time series. Its foundation is the principle of finding out whether, in a regression equation, the coefficient of the lagged level of the time series equals one. The alternative hypothesis states that the time series is stationary and has a unit root, as supported by the null hypothesis. A constant term, a linear trend term, or both may be included in the test, depending on the time series' properties. The ADF test findings will provide you with a p-value and a test statistic. There is a comparison between the critical values and the test statistic at different significance levels, usually 5%,

10%, and 1%. The probability that a test statistic will be as extreme or more extreme than the observed one under the null hypothesis is known as the p-value. If the p-value is less than the significance level, the null hypothesis can be rejected and the time series can be declared stationary. The null hypothesis cannot be accepted and a unit root in the time series is inferred if the p-value is greater than the significance level. The basic equation is

$\Delta yt = \alpha + \beta t + \gamma yt - 1 + \delta 1 \Delta yt - 1 + \delta 2 \Delta yt - 2 + \ldots$

Null hypothesis variables are non-stationary

Alternative hypothesis variables are stationary

After estimating the stationary of the variables, the ARDL approach is use to estimate the time series Data.

4.2.2 Autoregressive Distributed Lag (ARDL)

Autoregressive Distributed Lag is referred to as ARDL. It is a technique for figuring out how variables in an econometric model relate to one another over the long and short terms. When working with time series data, where variables are observed over a predetermined amount of time, ARDL is especially helpful. Because the ARDL method enables the inclusion of both stationary and non-stationary variables in the same model, it is suitable for examining interactions between variables that may have different integration orders. It is widely used in cointegration analysis, where identifying the relationships between variables at long-term equilibrium is the main objective.

The upper bound is reached if the F statistics values are high. We shall acknowledge the alternative theory and reject the null hypothesis, demonstrating the long-term correlation. Conversely, in the event that the F-statistic value falls below the 15-lower bound, we accept the null hypothesis. It will show that a long-term relationship is impossible.

5. Empirical Results and discussion

5.1. Descriptive Stats

Table 2: Descriptive statistics

Mean	TRSRVE	LGDP	INDUS	IMP	EXCR
	16.64803	25.28756	20.29866	18.91806	61.53474
Std. Dev.	9.773552	0.838282	1.554108	2.556828	41.97864
Skewness	0.471879	0.153521	-0.082733	-0.635339	0.820761
Kurtosis	1.959353	1.622269	1.899869	2.864656	2.910326

The mean value of TRSRVE, LGDP, INDUS, IMP and EXCR are greater than S.D. This shows that the data is under-dispersed. For the normality of the data, skewness should be equal to 0 and kurtosis of should also be equal to 3 for each variable. But in the above table, no single variable meets this criterion, so data is not normal. To determine whether the data are consistent, the ADF test procedure are used.

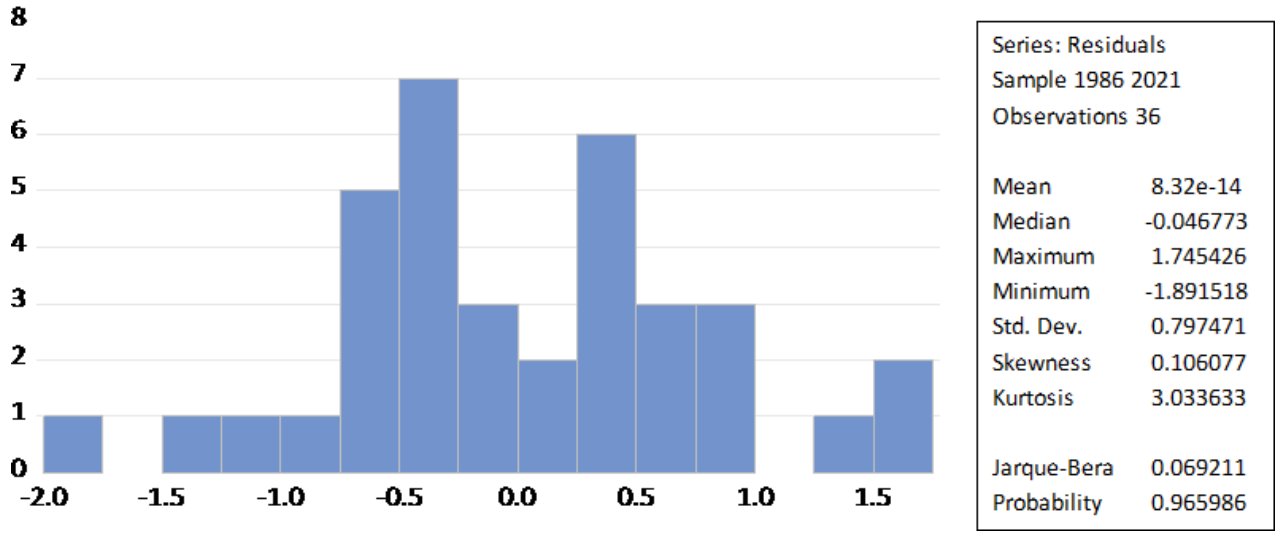
5.2 Unit Root Test

Table 3: Unit root Test

Variable	At first difference	Remarks
Import	0.0000	Stationary
GDP	0.0001	Stationary
EXCR	0.0006	Stationary
TRSRVE	0.0000	Stationary
INDUS	0.0000	Stationary

In the above table all variable is stationary at level 5%.

5.3 Histogram



This shows a symmetrical pattern, which means the data set is normally distributed. This means all the measures of location are at the center of the distribution: Mean = Median = Mode. The probability value of residuals is 0.05 or 5% so residuals are normally distributed. The skewness is near 0 and residuals show normal distribution because their kurtosis is near 3.

5.4 Auto Correlation

Table 4: Auto Correlation

F- statistic	2.124950
R^2	3.631225
Prob. F Test	0.1612
Prob. Chi-Square (1)	0.0570

The degree of correlation between the values of the same variables across various data observations is known as autocorrelation. When referring to time series data observations collected over an extended period of time the word "autocorrelation" is most frequently employed. The test statistic for the Durbin-Watson tests has a range of 0 to 4. Values closer to 0 or 4 imply more positive or negative autocorrelation, respectively, whereas numbers closer to 2 (the middle of the range) reflect less autocorrelation.
It shows that no Autocorrelation

5.5 Heteroskedasticity

Table 5: Heteroskedasticity

Heteroskedasticity Test:	Breusch-Pagan-Godfrey		
Null hypothesis:	Homoskedasticity		
F- statistics	0.525582	Prob. F (15, 20)	0.8961
R^2	10.17849	Prob. Chi-Square (15)	0.8084
Scaled explained SS	3.194339	Prob. Chi-Square (15)	0.9994

In statistics, heteroskedasticity (or heteroscedasticity) occurs when a variable's standard errors are not constant over a given period of time.
There is no problem of Heteroskedasticity.

5.6 Autoregressive Distributed Lag

Table 6: Autoregressive Distributed Lag

	Dependent variable is Imp		
Regressor	**Coefficient**	**Standard error**	**T- ratios(prob)**
LGDP	8.013474	4.360945	1.837554
EXCR	0.060948	0.057319	1.063312
INDUS	1.417120	0.299984	4.723987
TRSRVE	0.110977	0.051490	2.155329

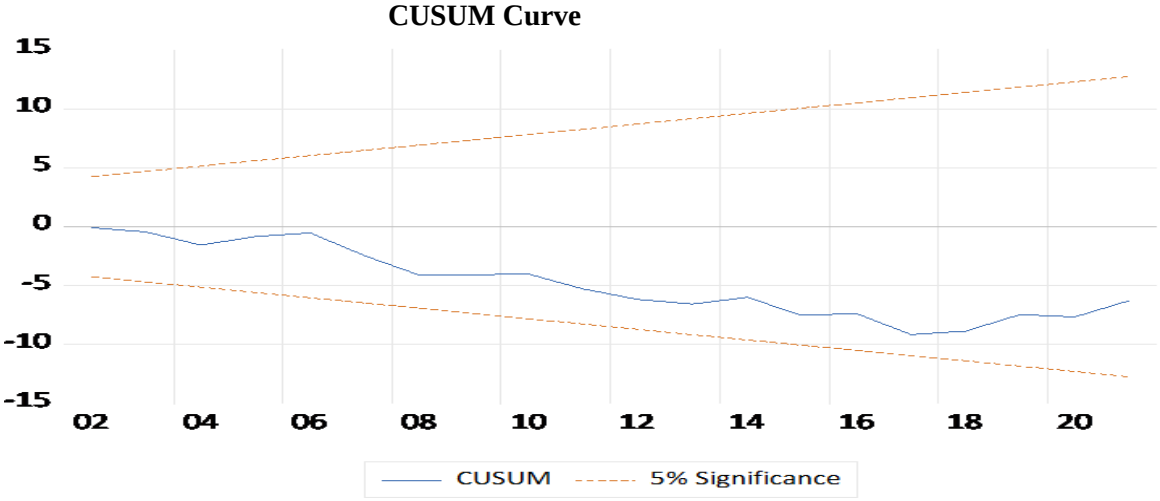
In above table LGDP shows positive relationship with Import. The value of LGDP is 8.013474. It shows if there is 1% increase in Import the Gross Domestic Product (GDP) will also increase by 8.013474 units. (EXCR) Exchange rate shows Positive relation with Import. The value of Exchange Rate is 0.060948. This shows that if Import increases 1% than Exchange rate is also increases by 0.060948 unit.

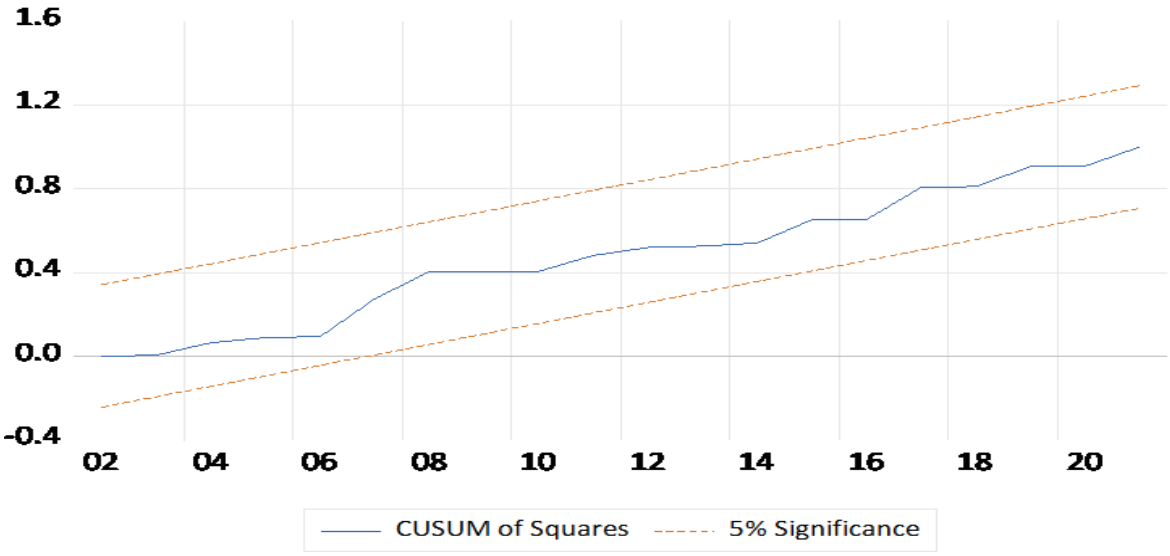
Industry (INDUS) shows positive relationship between Import and INDUS. The value of Industry (INDUS) is 1.417120. This shows that if Import increases 1% than INDUS also increases by 1.417120 unit.

Total Reserves (TRSRVE) shows positive relation with Import. The value of Total reserves is 0.110977. This shows that if Import increases by 1% than TRSRVE also increases by 0.110977 unit.

EC = IMP - (8.0135*LGDP + 0.0609*EXCR + 1.4171*INDUS + 0.1110 *TRSRVE)

Error correction shoes that negative relation between LGDP and Import. And positive relation with INDUS TRSRVE and EXCR.





These curve shows that Model is stable because the Blue line is between the red lines.

5. Conclusion

The cost of imports and the competitiveness of domestic industries are both impacted by the exchange rate, making it a crucial factor. By making domestic production more competitive and imports relatively more expensive, a favorable exchange rate can increase the viability of ISI. Reserves overall are necessary to support ISI efforts. It is essential to keep reserves at a healthy level in order to support import substitution programs and develop a robust industrial base. The Gross Domestic Product (GDP) measures a nation's overall economic health and potential. By supporting domestic industries that can increase GDP, ISI hopes to stimulate economic growth. To avoid unintended consequences like decreased competitiveness in international markets, it is crucial to make sure ISI policies are balanced and in line with broader economic goals.

In conclusion, successful management of these variables is essential for the industrialization of import substitution in Pakistan. A favorable exchange rate, adequate total reserves, robust domestic industries, and a balanced strategy in line with larger economic objectives are important elements that can support ISI success and aid Pakistan in achieving sustainable economic growth and decreased reliance on imports.

5.1 Policy Recommendation

5.1.1 Tariff and trade barriers

Implement protective tariffs, import quotas, and other trade barriers to increase the cost of imported goods and reduce their competitiveness on the domestic market. This will encourage domestic production and shield regional businesses from foreign rivalry.

5.1.2 Flexible Exchange Rate

Adopt a system of flexible exchange rates that enables the exchange rate to change in accordance with market forces. Maintaining competitiveness in global markets and adjusting to external shocks can be facilitated by a flexible exchange rate. By taking into account changes in relative prices, it also discourages an excessive reliance on imports.

5.1.3 Provide Financial Support

Create financial institutions, such as development banks or specialized lending schemes, to offer domestic industries accessible credit and financial support. This assistance may help investors in strategic sectors and help them overcome capital constraints.

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